

ALASKA DEPARTMENT OF REVENUE

News Release

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FY08 Revenues Expected to Fall from FY07 Record

Juneau- Department of Revenue Commissioner Patrick Galvin today released the first revenue forecast of the Palin Administration. The revenues for the current 2007 fiscal year will be a record high. The new Petroleum Profits Tax (PPT) became effective on April 1, 2006. FY 07 revenue from the PPT is about \$1.0 billion more than what would have been received under the old Economic Limit Factor or ELF. We continue to experience higher oil prices, but revenue forecasts will continue to reflect declines in ANS production.

General Fund Unrestricted Revenue is forecast at \$4.98 billion in FY 07 and \$3.55 billion in FY 08. The FY 07 value is \$68 million higher than projected in the fall of 2006 while the FY 08 value is \$364 million lower than that forecasted in the fall. The FY 08 estimate is lower because (1) expected crude oil production volumes have been reduced; (2) expected deductible costs under PPT have increased; and (3) unused tax credits earned in FY 07 for taxpayers' capital investments are being applied against FY 08 revenues.

The April-December 2006 "true-up" payment, received in April 2007 totaled \$805 million - the previously reported \$813 million true-up payment has been updated to reflect taxpayer refunds. The true-up payment provided the State with its first opportunity to compare operating and capital cost forecasts against the reported oil companies' operating and capital costs as reflected in their tax returns. Based on the information received in the tax returns, as well as preliminary cost estimates provided by some taxpayers, the forecasted deductible costs for FY 08 have been increased.

Revenue officials project crude oil prices on the West Coast at \$59.81 per barrel for FY 07, reflecting a 1.6% decline from FY 06 level of \$60.80 per barrel. The department projects ANS crude oil prices will decline to \$54.72 per barrel in FY 08 and to \$53.86 per barrel in FY 09. The State's long-term price forecast for FY 2014 and beyond is \$41.03 per barrel, increasing with inflation.

Forecasted Henry Hub natural gas prices are lower. The State expects gas to average \$6.64 per million BTU in FY 07, a 27.8% decrease from an average of \$9.20 per million BTU in FY 06. Natural gas prices are projected to increase by \$0.21 per million BTU, to \$6.85 per million BTU in FY 08 and to decline to \$6.82 per million BTU in FY 09.

Forecasted FY 07 North Slope average production is 740,000 barrels per day, down 12.4% from the FY 06 average of 845,000 barrels per day. A significant portion of this decline relates to corrosion problems at Prudhoe Bay, Lisburne and Milne Point. FY 08 production is projected to increase to 764,000 barrels per day and it is assumed there will be no major disruptions. Production is forecasted to decline over the next decade with volumes at 682,000 barrels per day in 2016.

Using the State's price and production forecasts, the state will receive unrestricted general fund revenues of about \$4.3 billion from crude oil production activities in FY 07 and \$3.0 billion in FY 08. This includes royalties, production taxes, property taxes and corporate income taxes.
